

Research Memorandum No. 427

Report of the

**SPECIAL COMMITTEE TO STUDY TAX INCENTIVES TO  
ASSIST THE COAL INDUSTRY (SCR 56)**

Senator Charles R. Berger, Chairman  
Senator Kenneth O. Gibson  
Representative Herbert Deskins, Jr.  
Representative Roger Noe  
Carroll F. Knicely, Commerce Cabinet  
Ronald L. Sanders\*, Energy Cabinet  
James R. Ramsey\*\*, Finance and Administration Cabinet

\*Replaced Charles H. Haywood as a representative of the Energy Cabinet on September 26, 1985.  
\*\*Replaced Joseph H. McBride as a representative of the Finance and Administration Cabinet on March 6, 1985.

LRC Staff Assignees:

C. Gilmore Dutton  
Calvert Bratton  
Linda Hughes



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#### M E M O R A N D U M

TO: Vic Hellard, Jr.

FROM: Senator Charles W. Berger  
Special Committee to Study Tax Incentives  
to Assist the Coal Industry (SCR 56)

DATE: December 12, 1985

SUBJECT: Report of Special Committee to Study  
Tax Incentives to Assist the Coal  
Industry (SCR 56)

A handwritten signature in dark ink, reading "Charles W. Berger".

The 1984 Session of the General Assembly adopted Senate Concurrent Resolution 56, creating a committee to study tax incentives to assist the coal industry in Kentucky. The Committee's mandate was to consider tax exemptions, credits, deductions or accelerated depreciation for coal related investments, research and development activities, the sale or purchase of coal-using equipment, the conversion to new coal-burning technology, the early replacement of existing energy-using equipment and the adoption of technologies that would allow the use of high sulfur coals, and to report its findings to the Legislative Research Commission.

The accompanying report presents the work of the Committee.

The Committee appreciates the opportunity to have served the Kentucky General Assembly and stands ready to respond to any inquiries it may direct through its Legislative Research Commission.

CGD/1h

Enclosures







The Special Committee to Study Tax Incentives to Assist the Coal Industry was an outgrowth of 1984 Senate Concurrent Resolution 56. That legislation mandated the formation of a committee charged with the responsibility of considering "tax exemptions, credits, deductions or accelerated depreciation for coal-related investments, research and development activities, the sale or purchase of coal-using equipment, the conversion to new coal-burning technology, the early replacement of existing energy-using equipment and the adoption of technologies that would allow the use of high sulfur coals." The resolution specified that the membership of the Committee would be composed of the following persons, or their designee: the chairmen of the Senate Agriculture and Natural Resources Committee, the House Natural Resources and Environmental Protection Committee, the Senate Appropriations and Revenue Committee and the House Appropriations and Revenue Committee, the secretary of the Energy Cabinet, the secretary of the Commerce Cabinet, and the secretary of the Finance and Administration Cabinet.

### Activities

The Committee met three times. The first meeting, held on March 13, 1985, was called to discuss the Committee's goals and to chart a course of action for the ensuing months. The Committee also received a staff report on "Taxes and Fees Applicable to the Coal Industry and Tax Advantages or Incentives in Coal Producing States." (See Appendix 1 for a copy of the report.)

The Committee next met on September 26, 1985, to hear from representatives of the coal industry and other interested persons on the general topic of coal industry tax incentives. The Committee's staff also presented a report on "Tax Incentives or Tax Advantages Available to the Agriculture Industry and to General Business in Kentucky." (See Appendix 2 for a copy of the report.)

At this second meeting, the Committee also heard testimony from seven persons, three representing coal industry associations, three representing coal companies and one representing a citizens' coalition. The following



recommendations summarize testimony to the Committee on tax incentives for the coal industry applicable to state taxation:

#### Coal Severance Tax

1. Reduce the severance tax rate.
2. Allow a credit against the severance tax for new coal production to fill new or amended coal contracts.
3. Apply the severance tax rate to "profit" rather than to the "gross value" of coal severed or processed.

#### Corporation Income Tax

1. Allow a credit against the corporate income tax for the repair or replacement of old or obsolete mining equipment.
2. Allow a credit against the corporate income tax equal to the cost of a coal-driven train or boat constructed in Kentucky.
3. Increase the existing tax credit against corporate income tax for conversion from gas or oil to coal as an energy source.
4. Allow a credit against the corporate income tax for the use of coal as a substitute for oil in the manufacture of chemicals and automotive fuels.

#### Corporation License Tax

Allow a credit against the corporation license tax based on a percentage of the cost of machinery or equipment used in the mining process.

#### Sales and Use Tax

Amend current statutes to exempt all mining machinery for "new and expanded industry" from Sales and Use Taxes.

#### General

Provide tax incentives or other inducements to Kentucky banks to encourage investment in Kentucky mining operations.



The Committee met for a third and final time on October 24, 1985, for the purpose of adopting a report of its activities to the Legislative Research Commission and making recommendations to the Commission for revisions to Kentucky's tax code that would assist the state's coal industry. The Committee adopted the following two recommendations:

#### Recommendations

1. The adoption of legislation to exempt from Sales and Use Taxes all mining machinery for new and expanded industry, including machinery for the preparation, maintenance and reclamation of the extraction site, as well as machinery used to extract the mineral, ore, etc. (See Appendix 3 for suggested bill draft.)

(The Committee was moved to adopt the above recommendation as a result of testimony received during its public hearing to the effect that: 1) the Revenue Cabinet's interpretation of machinery used in the mining process which qualifies for exemption from Sales and Use Taxes under the exemption for "machinery for new and expanded industry," is limited to machinery which actually comes into physical contact with the mineral; 2) machinery used in the preparation and reclamation of the extraction site - bulldozers, for example - and machinery used in maintaining the extraction site - roof support systems and ventilation fans, for example - are cost items as significant as machinery involved in the actual act of extraction, and the exemption of such machinery is as important to the attraction of new industry and to the furthering of industry expansion as machinery coming into physical contact with the mineral; and 3) that the General Assembly intended to exempt such machinery under the exemption for machinery for new and expanded industry when it adopted the term "used directly"; i.e., this term requires that exempt machinery be used directly in the mining process, but it

does not require that the machinery be "used directly" on the mineral itself.)

2. The adoption of legislation similar to 1984 Senate Concurrent Resolution 56, establishing a task force to study tax incentives for the coal industry during the 1986-87 legislative interim.

(The Committee was moved to adopt the above recommendation because of the members' recognition that Kentucky's coal industry is of vital importance to the state, that continued legislative monitoring of the economic welfare of that industry is important, and that the present membership of the Committee constitutes a pool of expertise not generally available to the General Assembly.)

## Conclusions

During the course of its investigations into tax incentives for the coal industry, the Committee was made aware of a variety of problems impinging upon Kentucky's coal business, including the effects of domestic and foreign competition. The competition can be direct, coming from other producers of coal, or indirect, coming from producers of alternative energy sources.

Many of the woes besetting Kentucky's coal industry stem from sources beyond the jurisdiction of Kentucky's Legislature, and can only be addressed, if at all, by Congress. These include such matters as indirect federal subsidy of foreign coal production and federal environmental standards.

The Committee was told of a number of changes to Kentucky's tax law which purportedly would allow for a more competitive marketing of Kentucky coal by reducing its tax cost. The suggestions, however, were not accompanied by estimates of concomitant tax losses, nor were there specific estimates of the increase in sales and resultant revenues to the industry or government which presumably would be effected by the tax subsidies.



A copy of the minutes of the Committee's three meetings is attached at Appendix 4.







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M E M O R A N D U M

TO: Special Committee to Study  
Tax Incentives to Assist the  
Coal Industry

FROM: Calvert R. Bratton *CRB*  
Appropriations and Revenue Committee

DATE: March 12, 1985

SUBJECT: Taxes and Fees Applicable to the Coal Industry  
and Tax Advantages or Incentives In Coal  
Producing States

Enclosed is a review of industry related taxes imposed by coal producing states and incentives granted by those states.

These taxes and incentives are those that were in effect or that were to take effect by January 1, 1985.

CRB/1h

Enclosure

TAXES AND FEES APPLICABLE TO THE COAL INDUSTRY  
AND TAX ADVANTAGES OR INCENTIVES IN  
COAL PRODUCING STATES

STATE	APPLICABLE TAXES AND/OR FEES	TAX INCENTIVES OR ADVANTAGES
Alabama	Severance Tax (2 levies) Entrance Fee Charter Fee Permit Fee Privilege License Tax Franchise Tax Income Tax Ad Valorem Property Tax Sales Tax Use Tax Unemployment Compensation Worker's Compensation Utility Tax	None
Alaska	Mining License and License Tax Corporation Net Income Tax	(1) Coal companies are exempt from the state's general business license tax. (2) All new mining operations are exempt from the mining license and license tax for 3 1/2 years after production begins. (3) A tax credit for up to 10 years is provided for anyone establishing, owning, or proposing to establish an industrial business.
Arizona	Severance Tax Corporate Income Tax Property Tax Sales and Use Tax Unemployment Compensation Worker's Compensation	None
Arkansas	Severance Tax Corporate Charter Tax Corporate Franchise Tax Corporate Income Tax Unemployment Insurance Tax Sales Tax Use Tax Property Tax	(1) Until June 30, 1989, a \$200 credit is allowed per net new employee of qualified business located in an Arkansas enterprise zone.



TAX INCENTIVES  
OR ADVANTAGES

APPLICABLE TAXES  
AND/OR FEES

STATE

Kansas

Severance Tax  
Corporate Organization Fees  
Corporate Income Tax  
Unemployment Insurance  
Worker's Compensation  
Tangible Property Tax  
Intangible Property Tax  
Sales and Use Tax  
Motor Carriers Property Tax  
Mined-Land Conservation and Reclamation Tax

(1) 10 year tax credit for individual, corporations or fiduciaries establishing a new business facility employing 2 or more person. 450 per employee; plus \$50 for each \$100,000 is investment.

Kentucky

Coal Severance Tax  
Minerals Severance Tax  
Corporation Organization Tax  
Corporate Document Fee  
Corporation License Tax  
Corporation Income Tax  
Ad Valorem Property Tax  
Sales and Use Taxes  
Unemployment Insurance Tax  
Worker's Compensation Self-Insurance Tax  
Retirement Plan Tax

(1) Unmined coal taxed at 1/10¢ per \$100 assessed value as a class of real estate for ad valorem tax purposes.

(2) Pollution control equipment of coal company is exempted from sales tax.

(3) Coal used for manufacturing electricity is exempt from sales tax.

(4) Certain mining supplies used directly in the extraction of coal and having a useful life of less than one (1) year is exempt from sales tax.

(5) Coal used for residential heating purposes is exempt from sales tax.

Maryland

Mini Reclamation Surcharge  
Incorporation Fee  
Corporate Income Tax  
Local Income Surtax  
Unemployment Fees  
Worker's Compensation  
Ad Valorem Property Taxes  
Sales Taxes  
Coal Severance Tax by Counties

None

Missouri

Corporate Organization Fees  
Corporate Income Tax  
Unemployment Insurance  
Worker's Compensation  
Franchise Tax  
Ad Valorem Property Tax  
Sales and Use Tax  
Surface Coal Mining Assessment

(1) Taxpayers who establish a new business are allowed a 10 year tax credit equal to \$100 for each new employee plus \$100 per each \$100,000 in investment.



TAX INCENTIVES  
OR ADVANTAGESAPPLICABLE TAXES  
AND/OR FEES

## STATE

## Montana

General Mining Tax  
Coal Severance Tax  
Corporate License Tax  
Unemployment Insurance  
Worker's Compensation

- (1) First 20,000 tons of coal produced annually is exempt from severance tax.
- (2) 73% reduction in property taxes during each of the first 3 years of operation of a new industry.
- (3) Qualifying "small business" may use 20% of federal investment tax credit as a credit against state income tax liability.

## New Mexico

Severance Tax  
Mineral Conservation Tax  
Corporate Charter Fees  
Corporate Income Tax  
Worker's Compensation  
Unemployment Compensation  
Ad Valorem Property Tax  
Occupation Tax  
Municipal Gross Receipt Tax  
Sales Tax  
Resources Excise Tax

None

## North Dakota

Coal Severance Tax  
Corporate Filing Fees  
Business Privilege Tax  
Corporate Income Tax  
Unemployment Tax  
Worker's Compensation  
Real Property Tax  
Sales and Use Taxes  
Oil and Gas Tax

- (1) Corporate income tax credit to new industry equal to 1% of gross expenditures for wages and salaries during each of the first 3 years of operation; in 4th and 5th years credit is 1/2 of 1%..
- (2) Partial exemption from ad valorem tax for up to 5 years.
- (3) Exemptions provided from state income tax for 5 years.
- (4) Coal mined and consumed within North Dakota is exempt from sales and use tax.

## Ohio

Resources Severance Tax  
Corporate Organization Fees  
Corporate Licensing  
Corporate Franchise Tax  
Unemployment Compensation  
Worker's Compensation  
Municipal Income Taxes  
School District Income Taxes  
Personal Property Taxes  
Real Estate Taxes  
Real Estate Transfer Tax  
Sales and Use Taxes

None

TAX INCENTIVES  
OR ADVANTAGESAPPLICABLE TAXES  
AND/OR FEES

STATE	APPLICABLE TAXES AND/OR FEES	TAX INCENTIVES OR ADVANTAGES
Oklahoma	Mineral Gross Production Tax Corporate Income Tax Corporate Franchise Tax Unemployment Compensation Ad Valorem Property Tax Sales Tax	(1) Exemption from sales tax provided for machinery, equipment and materials consumed in industrial process.  (2) Investment tax credit equal to 1/2% of qualified cost of property in manufacturing process.
Pennsylvania	Corporation Net Income Tax Corporate Income Tax Capital Stock and Franchise Tax Gross Receipts Tax Corporation Excise Tax Sales and Use Tax Realty Transfer Tax	(1) Tax credit for employing persons prior to 1986, who were cash recipient persons. Credit equal to 30% of 1st \$6,000 in 1st year wages, 20% of 1st \$6,000 of 2nd year wages, 10% of 1st \$6,000 of 3rd year wages.
Tennessee	Severance Tax Corporate Organization and Qualification Fees Annual Corporation Report and Tax Franchise Tax Corporate Income and Excise Tax Local Business Gross Receipts Tax Unemployment Compensation Worker's Compensation Ad Valorem Property Taxes Sales and Use Tax Utility Gross Receipts Tax	(1) Credit not to exceed 50% of tax liability is allowed equal to a percentage of the purchase price of industrial machinery located in Tennessee. Unused credit may be carried forward for 3 years or until exhausted.
Texas	Certificate of Authority to Transact Business Business Franchise Tax Unemployment Insurance Worker's Compensation Ad Valorem Taxes Sales Tax	None
Utah	Corporate Income Tax Unemployment Compensation Sales and Use Tax Mining Occupation Tax	None

STATE	APPLICABLE TAXES AND/OR FEES	TAX INCENTIVES OR ADVANTAGES
Virginia	Corporate Charter Fee Filing Fee Recordation Fee Entrance Fee Annual Franchise Fee Annual Registration Fee Corporate Income Tax Capital Not Otherwise Taxed Sales and Use Tax Unemployment Insurance Worker's Compensation Insurance Local Real Estate Tax Local Utility Taxes Coal Surface Mining Reclamation Tax	(1) Tax credit equal to 50% of investments into approved neighborhood assistance programs.
Washington	Business and Occupation Tax Ad Valorem Property Taxes Sales and Use Taxes	None
West Virginia	Business Franchise Registration Tax Corporate Charter License Tax Business and Occupation Tax Severance and Extraction Tax Corporation Net Income Tax Ad Valorem Property Tax Sales and Service Tax and Use Tax	(1) Corporations are allowed a credit against the primary tax equal to the business and occupation tax liability.
Wyoming	Mining Excise and Severance Tax Ad Valorem Property Tax Corporate Charter fees Corporate Franchise Tax Worker's Compensation Insurance Unemployment Compensation Sales and Use Tax	(1) Allowance for deduction for transportation costs from the mine to the shipping point where sales price applies in calculating severance tax. (2) Allowance for deduction of federal black lung and coal reclamation taxes in calculating severance tax. (3) Allowance for deduction of royalties paid for coal produced from federal and state leases in calculating severance tax.





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**MEMORANDUM**

**TO:** Special Committee to Study Tax  
Incentives to Assist the Coal  
Industry (SCR 56)

**FROM:** Calvert R. Bratton *C.R.B.*  
Appropriations and Revenue Committee

**DATE:** September 23, 1985

**SUBJECT:** Report of Tax Incentives or Tax Advantages  
Available to the Agriculture Industry and to  
General Businesses in Kentucky

Attached are tables reflecting the various types of tax incentives or advantages generally available to agriculture, and general business in Kentucky.

Special tax treatment has evolved over the years for various reasons but mainly to provide some impetus for that particular sector of the economy.

The agricultural sector receives tax advantages from the ad valorem property tax, sales and use tax, inheritance and estate tax and the gasoline tax.

The primary advantage to the agriculture industry is in the area of ad valorem property taxation which provides a farm land assessment that is based on land values for agricultural purposes rather than fair market values. It is estimated that this tax treatment saves the industry approximately \$45 million in state, county, and school property taxes each year.

There are numerous other smaller tax advantages in the area of sale taxes, such as exemptions for farm feed, machinery, seed, gasoline; repair and replacement parts are exempt from the sales and use tax.

Tax Incentives Special Committee  
September 23, 1985  
Page Two

Gasoline used for agricultural purposes is exempt from the gasoline tax.

The general business sector receives special tax treatment in the areas of ad valorem property tax and the sales and use tax.

The property tax provisions range from municipal tax exemptions for up to five years to special rate classes for alcohol production facilities, pollution control facilities, manufacturing machinery, etc.

The sales and use tax provisions apply generally to certain exempt transactions as well as to the outright tax exemption for certain equipment, such as railroad locomotives, coal for electricity production, aircraft, and energy or energy producing fuels.

No reliable estimate is available concerning the costs in tax revenues of these various tax breaks.

CB/1h

TAX INCENTIVES OR TAX ADVANTAGES  
AVAILABLE TO AGRICULTURE INDUSTRY IN KENTUCKY

<u>TAX</u>	<u>ADVANTAGE</u>
Ad Valorem Property Tax	<ul style="list-style-type: none"><li>(1) Farm land assessment preferential treatment assessment based on value for agricultural purposes rather than fair market value.</li><li>(2)(a) Tobacco in hands of produce or agent subject to reduced state tax rate (1.5%);</li><li>(b) unmanufactured tobacco in storage subject to reduced state and county tax rates (1.5% and 1.5%);</li><li>(c) Other unmanufactured agricultural products subject to reduced state and county tax rates. (1.5%, 4.5%);</li><li>(3) Farm machinery subject to 1/10% state tax only;</li><li>(4) Livestock and poultry subject to 1/10% state tax only.</li></ul>
Sales And Use Tax Exempt Transactions	<ul style="list-style-type: none"><li>(1) Feed is exempt when used for livestock or poultry destined for human consumption</li><li>(2) Salt, protein, and mineral blocks are exempt from sales tax;</li><li>(3) Agricultural lime is exempted;</li><li>(4) Livestock for human consumption is exempted;</li><li>(5) Farm work stock for use in farming operation is exempted;</li><li>(6) Seed is exempted;</li><li>(7) Farm machinery used in production of crops is exempted;</li><li>(8) On-farm facilities for grain handling storing, or drying is exempted;</li><li>(9) Gasoline, special fuels, LP gas used for agriculture are exempted;</li></ul>

(10) Repair and replacement parts are exempted;

Additional Exempted Farm Machinery:

Irrigation systems  
Tobacco curing equipment  
Farm wagons  
Portable insecticide sprayers  
Chain Saws  
Mechanical cleaning equipment  
Mechanical shop equipment  
Mechanical post hole digger  
Silo augers  
Grain and hay elevators  
Milking machines  
Automatic washers  
Bulk tanks  
Cooling units  
loaders  
Incubators  
Egg-gathering systems  
Automatic feeding equipment  
Automatic watering equipment.

Inheritance and Estate

(1) Agricultural or Horticultural land may be assessed at its agricultural or horticultural value for inheritance tax purposes if it passes to qualified persons.

Gasoline Tax

(1) Gasoline for agricultural purposes is exempt from gasoline tax, tax paid shall be refunded.

**TAX INCENTIVES OR TAX ADVANTAGES  
AVAILABLE TO GENERAL BUSINESS**

**Ad Valorem Property  
Tax**

- (1) The General Assembly may authorize any incorporated city or town to exempt manufacturing establishments from municipal taxation, for a period not exceeding five years, as an inducement to their location;
- (2) Alcohol Production facilities subject to 1/10¢ state tax rate only;
- (3) Leasehold interest subject to 1.5¢ state tax rate only;
- (4) Manufacturing machinery subject to 15¢ state tax rate only;
- (5) Pollution Control facilities subject to 1.5¢ state tax rate only;
- (6) Raw material and products in course of manufacturer subject to 1.5¢ state tax rate only.

**Sales and Use Tax  
Exempt Transactions**

- (1) The sales, use, storage, or other consumption of industrial machinery;
- (2) Sale of nonreturnable and returnable containers when sold to persons who fill the containers;
- (3) Sale of returnable containers when sold for refilling;
- (4) Sale of tangible property used for lump sum fixed fee contracts on public works;
- (5) Sales to a common carrier, paid in advance, for shipment and use at a point outside Kentucky;
- (6) Sale of sewer services, fuels for residential use, water;
- (7) Property subject to sales or gasoline tax exempt from use tax;

Property Exempt From  
Retail Sales Tax

- (1) Locomotives or rolling stock including repair or replacement parts, fuel or supplies for locomotives;
- (2) Coal for manufacturing electricity;
- (3) Energy or energy producing fuels used in manufacturing, processing or mining or refining to the extent that the cost of the energy producing fuels exceeds 3% of the production cost;
- (4) Machinery for new and expanded industry;
- (5) Property certified as pollution control facilities;
- (6) Property certified as an alcohol production facility;
- (7) Aircraft, repair and replacement parts therefore, supplies, except fuel;
- (8) Storage, use, or other consumption of ships and vessels, supplies and fuel consumed in the operation thereof.

Corporate Income and  
License Tax

- (1) Every corporation with gross income of not more than \$500,000 is given a tax credit equivalent to \$1.40 per \$1000 of capital employed when calculating the corporate license tax.
- (2) Corporations that install coal burning heating or manufacturing equipment receives a tax credit equal to 4 1/2% of the purchase price of the coal used in the heating or manufacturing processes.

Gasoline Tax

- (1) City and suburban bus companies and taxi companies operating under a certificate of convenience and necessity qualify for a 7/9% refund of motor fuels taxes.



AN ACT relating to Sales and Use Taxes.

Be it enacted by the General Assembly of the Commonwealth of Kentucky:

SECTION 1. KRS 139.170 IS AMENDED TO READ AS FOLLOWS:

"Machinery for new and expanded industry" shall mean that machinery used directly in the manufacturing, [or] processing production or mining process, which is incorporated for the first time into plant facilities established in this state, and which does not replace machinery in such plants. The term "processing production" shall include[:] the processing and packaging of raw materials, in-process materials, and finished products,[:] and the processing and packaging of farm and dairy products for sale[: and the extraction of minerals, ores, coal, clay, stone and natural gas]. The term "mining" shall include the extraction of minerals, ores, coal, clay, stone and natural gas, and the preparation, maintenance and reclamation of the extraction site.



SPECIAL COMMITTEE TO STUDY TAX  
INCENTIVES TO ASSIST THE COAL  
INDUSTRY (SCR 56)

Minutes of the Third Meeting  
of the 1984-85 Interim

October 24, 1985

The third meeting of the Special Committee to Study Tax Incentives to Assist the Coal Industry (SCR 56) was held on October 24, 1985. Senator Charles Berger, Chairman, called the meeting to order, and the secretary called the roll. A quorum was present.

Members: Senator Charles Berger, Chairman; Senator Ken Gibson, and Representative Roger Noe; Mr. Ronald L. Sanders representing the Energy Cabinet; Mr. James Ramsey representing the Finance and Administration Cabinet; and Mr. Bob Fouts representing the Commerce Cabinet.

Guests: James Baker, Western Kentucky Coal Association, and Gay Dwyer, McCoy and McCoy Inc.

LRC Staff: C. Gilmore Dutton, Calvert Bratton, Susan Pippen, Gary Peaks, and Linda Hughes.

Representative Roger Noe moved to approve the minutes of the September 26, 1985 meeting as distributed. Seconded by Senator Ken Gibson, the motion carried unanimously.

Chairman Berger asked Gilmore Dutton to summarize the draft of a report proposed for presentation to the Legislative Research Commission and a bill drafted at Senator Berger's request.

Mr. Dutton stated the report listed the activities of the Committee's two prior meetings, and would include today's meeting activities. Also included were suggestions received at the Committee's public hearing. Mr. Dutton said the Committee's recommendations would be incorporated into the report, along with the Committee's conclusions.

Regarding the bill draft, Mr. Dutton informed the members that the proposed bill amended KRS 139.170, to exempt from Sales and Use Taxes mining machinery for new and expanded industry used in the preparation, maintenance and reclamation of the extraction site. Mr. Dutton explained that the present law has been interpreted to limit the exemption from Sales and Use Taxes for mining machinery for new and expanded industry to only that machinery that comes into physical contact with the mineral during the extraction process.

Senator Berger asked staff if the bill confined the exemption to machinery for new and expanded industry? Mr. Dutton stated that the general exemption under the Sales and Use Tax Law, except for farm machinery, was limited to machinery for new and expanded industry. Mr. Dutton said that, except for the one exception, there were no exemptions for any industrial machinery purchased as replacement machinery.

Senator Berger asked Mr. James Baker if he knew how the Revenue Cabinet was taxing roof bolts. Mr. Baker said that the Revenue Cabinet had decided that roof bolts would not be exempt.

Mr. Sanders said that the bill addressed the issue that exempt machinery will not just be machinery used in extracting the mineral, but will also be machinery used in preparing and later reclaiming the extraction site. Mr. Sanders said he believed that the bill would be of significant benefit to the industry.

Senator Gibson agreed with Mr. Sanders, stating he thought the bill would certainly help the industry, and thus moved to incorporate the bill draft into the report. Seconded by Representative Roger Noe, Senator Berger asked for a roll call: Senator Gibson, aye; Representative Noe, aye; Bob Fouts, aye; Ronald Sanders, aye; James Ramsey, aye; and Chairman Berger, aye. The motion passed unanimously.

Mr. James Ramsey called the Committee's attention to the second from last paragraph of the report, stating that he did not believe the language was strong enough and would like to see a continuation of the Committee. Senator Gibson said he agreed with Mr. Ramsey because there was expertise on the Committee that was not ordinarily available to the legislature. After some discussion, Representative Noe moved to include as a Committee recommendation that the 1986 General Assembly consider reestablishment of a task force to study coal tax incentives. Senator Gibson seconded the motion, which carried unanimously.

Representative Noe moved to accept the report as amended. Seconded by Senator Gibson, Senator Berger asked for a roll call: Senator Gibson, aye; Representative Noe, aye; Bob Fouts, aye; Ronald Sanders, aye; James Ramsey, aye; and Chairman Berger, aye. The motion carried unanimously.

Senator Berger asked staff to make the appropriate changes in the report and forward the report to the Committee members. Senator Berger noted that if there were no objections from the members, he

would give staff final approval of the report after inspection of the amendments. There were no objections to Chairman Berger's suggestion.

With no business before the Committee, the meeting adjourned at 2:30 p.m.







